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SUBJECT: STATE COUNCIL RESEARCHER SAYS APRIL CPI DATA WARRANTS
CONTINUED CONCERN

SUMMARY

¶1. (SBU) China's Consumer Price Index (CPI) increased 8.5 percent year-on-year in April, fueling further concern about inflation in the run-up to the Beijing Olympics. Food prices again accounted for most of the increase, led by surging pork and cooking oil prices. A leading researcher at China's State Council said the Central Government is surprised that inflationary pressures have not yet subsided, adding that government leaders continue to be concerned about the possible impact of rising prices on social stability. END SUMMARY.

APRIL CPI UP 8.5 PERCENT

¶2. (SBU) The National Bureau of Statistics (NBS) announced on May 12 that China's CPI was up 8.5 percent y-o-y in April with the CPI increasing in urban areas by 8.1 percent and continuing to surge in rural areas by 9.3 percent. Food prices increased 22.1 percent while non-food prices increased 1.8 percent. Pork prices (which increased 68.3 percent over the previous year) and cooking oil prices (up 46.6 percent y-on-y) were the primary contributors to rising food prices. Investment bank analysts expressed some surprise at the 8.5 percent CPI increase in April, as most analysts had expected prices to be leveling out rather than rebounding from an 8.3 percent increase in March to 8.5 percent in April -- the fourth consecutive month the CPI increased by 8 percent or more year-on-year.

STATE COUNCIL REMAINS CONCERNED

¶3. (SBU) The Deputy Head of the Rural Economy Department at State Council's Development Research Center (DRC) told Econoff on May 13 that the State Council remains extremely concerned about rising prices, and inflation has been his top priority for the past few months. Xu Xiaoqing, one of China's top rural researchers, said the DRC also was somewhat surprised at the high CPI level in April. Cooking oil prices are especially worrisome, he said, as poor urban residents spend a disproportionate amount of their income on cooking oil, and the State Council is concerned about the possible ramifications for social stability if cooking oil prices continue to rise.

¶4. (SBU) Xu added that boosting pork production to meet growing demand has been problematic, and he said he was shocked by the 68.3 percent increase in pork prices compared to last April. He lamented that because only 30 percent of all pork producers in China are large-scale producers, and with pork production only found in Sichuan, Hunan, and Jilin Provinces, there are no short-term fixes or high-tech solutions for increasing the supply of pork. (Note:

Xu added that Sichuan is the largest pork producing area in China and it remains to be seen how the May 12 earthquake in that province will affect this year's production. End Note.) Xu said that both for pork and for grains, he also remains concerned about rising production costs for farmers.

A CONSENSUS VIEW?

15. (SBU) Xu admitted that researchers' views differed widely on the root cause of China's inflation problem and the likely policy prescriptions. He said it is a challenge for the DRC to present a consensus view to the State Council, particularly with regard to possible methods to counter inflation. At the end of the day, researchers from the DRC's various departments will agree to a position and send it forward to the State Council, but there remains disagreement between individuals about how to address the problem, and while rising prices have not yet affected social stability, Xu said the April inflation figures added to the State Council's economic concerns.